

LAFAYETTE PARISH SCHOOL SYSTEM



COMPLIANCE AUDIT

ISSUED OCTOBER 26, 2005

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October 26, 2005

DR. JAMES H. EASTON, SUPERINTENDENT
LAFAYETTE PARISH SCHOOL SYSTEM
Lafayette, Louisiana

We have audited certain transactions of the Lafayette Parish School System in accordance with Title 24 of the Louisiana Revised Statutes. Our audit was performed to evaluate the efficiency and effectiveness of the contract bus service administered by the Department of Transportation.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the system's financial statements or system of internal control nor assurances as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. Copies of this report have been delivered to the District Attorney for the Fifteenth Judicial District and others as required by state law.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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The Lafayette Parish School System (LPSS) has significant deficiencies in the operations of its contract bus service. Although the LPSS encourages the use of contract drivers, weak controls have led to excessive costs, inefficient routes, lack of accountability, poor documentation, and possible noncompliance with state regulations. Specific problem areas include the following:

1. Between the 2001/2002 school year and the 2004/2005 school year, the Board paid approximately \$620,764 in operational expense reimbursements to contract drivers for frozen miles that were not driven.
2. During the 2004/2005 school year, the Board improperly guaranteed the mileage of 87 contract drivers who did not have frozen mileage guarantees. The cost of this guarantee was approximately \$353,758.
3. Reported mileage for some contractor-driven routes appears excessive given the stops identified on the route sheets. A sample of 15 contractor-driven routes in the 2004/2005 school year shows excess mileage of approximately 144 miles costing approximately \$82,368.
4. The number of miles driven per student by the contract bus drivers has increased 46% between the 2001/2002 and 2003/2004 school years.
5. There is not currently nor has there been in recent years a comprehensive system of audits for the contractor-driven routes.
6. LPSS paid \$6,278 for insurance costs on buses leased to contract drivers for the 2004/2005 school year even though the contract drivers received operational expense reimbursements to cover these costs.
7. LPSS failed to properly document that all routes were allocated based on seniority as required by state law for the 2004/2005 school year.

Background

The LPSS transportation system relies on Board-employed drivers and contract drivers. Both groups receive a salary based on an entry-level grade and subsequent step increases based on experience. In addition to their salary, contract drivers receive an operational expense reimbursement. This reimbursement is for the costs (bus note, insurance, fuel, and maintenance) of purchasing and operating the buses and is based on the miles driven. This per-mile rate has three components: a state rate (which varies between three levels because of the length of the route), a local supplement, and a fuel adjustment.

In the past, contract drivers were reimbursed operational expenses on the basis of route sheets that they prepared and turned in to the LPSS Transportation Department (Department). These route sheets indicate the miles driven, all stops, and the children transported for each route. The drivers are paid based on the mileage recorded on these sheets. In the past, principals would

audit the routes, but this practice appears to have stopped several years ago. Many contract drivers are consequently being paid for mileage on routes which have never been audited.

At the beginning of the current fiscal year, the Department attempted to centralize the process by which routes were developed. The Department used a computer program called SMARTR to generate the most efficient routes possible. Some of the resulting routes were inaccurate and led to students not being picked up. According to Department management, the inaccurate routes were caused by student data that were incomplete and not updated.

Reimbursement for Frozen Miles Not Driven

According to state regulations, drivers who purchase their own buses and become contract drivers are entitled to frozen mileage. Drivers who purchase a new bus receive seven years of frozen mileage while those who purchase a used bus receive five years of frozen mileage. During these periods, the driver receives the frozen mileage even if actual miles driven are less than the frozen mileage. If actual miles driven are greater than the frozen mileage, the driver receives reimbursement based on actual miles. As a result, situations can occur where the Board pays for miles not actually driven.

The LPSS does not have policies regarding the level at which routes are to be frozen. Moreover, there has been no systematic effort to audit routes before they are assigned to contract drivers and frozen. In the most recent school year, 2004/2005, frozen mileage levels were as high as 81.8 miles. Fifteen of the 67 contract routes that were frozen were over 60 miles. The practice of assigning such high mileage routes to contract drivers and then freezing the mileage significantly hinders the Department's ability to introduce efficiencies into the route system.

According to the *School Transportation Handbook*, "Every effort should be made by the Supervisor of Transportation to assure that route mileage is not reduced below the frozen mileage level." In Lafayette Parish, the discrepancy between the frozen mileage and actual mileage has increased steadily since the 2001/2002 school year as follows:

- For the 2001/2002 school year, the Board paid for 26,460 miles that were not driven.
- For the 2002/2003 school year, the Board paid for 37,656 miles that were not driven.
- For the 2003/2004 school year, the Board paid for 60,552 miles that were not driven.
- For the 2004/2005 school year, the Board paid for 276,759 miles that were not driven.

In total during these years, the Board paid \$620,764 for miles not driven because of frozen mileage.

Reimbursement for Improperly Guaranteed Mileage

The LPSS also guaranteed the route mileage of contract drivers who did not have frozen mileage for the 2004/2005 school year even though there was no legal requirement to do so. There were 87 contract drivers (56% of all contract drivers) who received guaranteed mileage but were not entitled to frozen mileage for the year.

According to Mr. Daniel Michele, Director of Transportation, guaranteed mileage for these drivers was the same mileage that they drove in 2003/2004. However, the actual mileage driven by many of these drivers was substantially less than the guarantee. The difference between the guaranteed miles and the actual miles driven was 222,489 during the 2004/2005 school year. The approximate cost of these miles was \$353,758.

The decision to guarantee mileage for certain drivers when no legal obligation existed to do so may violate provisions of the Louisiana Constitution. Article 7, Section 14 of the Louisiana Constitution provides, in part, that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Mileage From Route Sheets Appears Excessive

To evaluate route design, we randomly selected 15 of the 2004/2005 contractor-driven routes and optimized them using the Department's optimization software.

To optimize the selected routes, all stops for a particular route were input into the Department's optimization program. The program analyzes the data and determines the most efficient route, i.e., the route that reaches all the stops in the fewest miles. Using this technique on the 15 sample routes, we found significant excess mileage on 12 of the routes. Excess mileage is the difference between the mileage recorded by the driver on the route sheet and the mileage the optimization program determines necessary.

The excess mileage ranged from 3.46 to 28.32 one-way miles. These are significant amounts given that a single one-way mile cost the Department approximately \$572 for the 2004/2005 school year. The total excess mileage was approximately 144 miles for these 12 routes. Therefore, the Department spent approximately \$82,368 to reimburse drivers for the excess mileage on these 12 routes during the 2003/2004 school year.

Declining Route Efficiency

Expenses due to excess frozen mileage and inefficient routes have contributed to an overall decline in route efficiency for the contractor-driven routes. For example, while the number of students transported by contract drivers increased .005% from 15,108 to 15,188, the number of miles driven per student increased from 112 miles in the 2001/2002 school year to 164 miles in

the 2003/2004 school year--a 46% increase. In addition, operational pay increased 83% during the same period.

The operational pay increase does not include the effect of “incentive pay.” Incentive pay is the LPSS policy to encourage the use of contract drivers by granting financial incentives to drivers who purchase new or used buses and become contract drivers. Incentive pay is granted in the following manner:

- \$2,000 a year for eight years for drivers who purchase new buses
- \$1,000 a year for five years for drivers who purchase buses up to five years old
- \$500 a year for three years for drivers who purchase buses six to eight years old

For the 2002/2003 school year, incentive pay totaled \$37,167 and for the 2003/2004 school year it was \$80,927.

Unaudited Routes

Although there is no specific written policy, the past practice has been for principals of individual schools to perform route audits. This practice was based on principal responsibilities outlined in transportation bulletins from the Department of Education but was discontinued years ago. As a result, most of the contractor-driven routes have never been audited.

Therefore, the LPSS does not have a comprehensive system to ensure routes are audited periodically. In addition, the LPSS does not have written policies and procedures covering:

- (1) when route audits are to be performed;
- (2) what types of audit are to be performed (efficiency, compliance, safety);
- (3) how the audits are to be performed;
- (4) who is to perform the audits;
- (5) how the audit findings, if any, are to be documented; or
- (6) how to audit changes to routes during the school year.

During fiscal year 2005, only eight routes were audited by Department personnel. All but one of these audits revealed discrepancies between the mileage reported and the mileage actually driven. Also, changes to routes during the school year were not audited and poorly documented. According to Department personnel, when route changes are made, the route sheets are updated but the supporting documents (e.g., list of stops and the student roster) are not.

Improperly Paid Insurance Costs

During the 2004/2005 school year, the Board leased buses to 19 contract drivers. These drivers purchased buses to become contract drivers; however, their buses had not arrived prior to the start of the school year. To get these drivers on the road at the start of the year, the LPSS leased buses to them that it had previously leased from local bus companies.

The LPSS paid \$55 per bus per day to lease the buses and passed the cost on to the contract drivers. The contract drivers did not reimburse the LPSS for the lease payments directly; rather, each contract driver's operational pay was reduced by \$55 per day. However, the LPSS, not the contract drivers, paid for the insurance on the leased buses. All other contract drivers are responsible for insuring their bus out of their operational pay.

Department policy requires operational pay to be prorated over 12 months rather than the nine months when the drivers are actually transporting students. The Department also prorates the reduced operational pay over 12 months. According to the Department, prorating the reduction in operational pay in this manner reduces the monthly operational pay reimbursement below the level at which a driver can afford a new bus. To offset the reduction, LPSS pays the insurance cost on buses it leases to contract drivers whose buses have not arrived.

The practice of subsidizing the insurance costs of these drivers is improper because certain drivers are being granted a benefit denied to other drivers. The contract drivers who lease buses from the LPSS are still reimbursed the same per-mile reimbursement rate as the other contract drivers. Over the course of the year, the contract drivers who lease buses from the LPSS for a portion of the year will be paid the same as other contract drivers--depending on the length of the routes. However, the LPSS is under no obligation to subsidize the insurance costs for contract drivers whose monthly expenses exceed operational pay. If the LPSS's concern is to ensure that no contract driver's monthly expenditures exceed his/her operational expense reimbursement for that month, the LPSS can eliminate the policy of prorating operational expense reimbursements entirely and pay the drivers each month based on the operational pay earned (i.e., based on the length of route and the per-mile reimbursement applicable to all drivers).

In total, the LPSS spent \$6,278 during the 2004/2005 school year for insurance on buses that were leased by contract drivers. According to Department management, this practice also occurred in prior years. In addition, this practice may violate Article 7, Section 14 of the Louisiana Constitution, which provides, in part, that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Questionable Route Allocation

Louisiana law¹ requires allocation of new and vacated bus routes based on seniority. The Department's practice was to publicly bid vacant and new routes then assign the route to the bidder with the most seniority. For the 2004/2005 school year, the Department assigned routes based on the route optimization program--SMARTR. Seniority was one of the criteria SMARTR used to generate the optimized routes.

According to the director of the Department, the SMARTR generated routes were assigned without favoritism and according to seniority guidelines. However, no documentation indicates that the Department implemented the formal bidding process as it had in previous years. Because of the lack of documentation, it is unclear whether the senior drivers were offered the opportunity to accept or reject the new routes that had been developed.

Insufficient Documentation

Our review of Department records indicated numerous deficiencies in record keeping and proper documentation procedures. These deficiencies include the following:

- Route sheets that are incomplete and not approved
- Inadequate procedures for approving and documenting route changes
- Form T-10's that improperly grant "frozen" mileage

The route sheets used by the Department have a standard format. There are data fields for the driver's name, bus number, guaranteed mileage, route effective date, beginning and ending odometer readings, beginning and ending route times, schools visited, route changes, driver's signature, auditor's signature, staff signature, and a section for office use where the one-way mileage is calculated. The route sheet is supported by documents identifying all the stops on the routes and the names of the students on the route.

Our review of the route sheets showed numerous instances where these data were incomplete, illegible, or confusing. For example, physical addresses were often missing from the list of stops supporting the route sheets. Stops were described by street name only. Route effective dates and approval signatures were also missing on numerous sheets. The office section where the one-way miles are calculated was often blank. Finally, there appears to be no procedure for recording receipt of route sheets.

Changes to route sheets were also handled improperly. The Department recorded changes to routes on a line at the top of the route sheets. Sometimes these changes were made to the original route sheet and sometimes a new route sheet was created. In neither instance was the

¹ **Louisiana Revised Statute 17:493.1** provides, in part, that whenever a school bus operator is needed to drive a new route or a route vacated by a previous operator, the school bus operator who is tenured and has acquired the greatest seniority shall be offered the opportunity to and may change from driving his route to the vacant route before another operator is selected.

supporting documentation, i.e., the stop and student information, updated to correspond to the new routes. Given the manner in which changes were handled, it is very difficult to accurately trace changes in the routes.

Form T-10 is the document indicating when a driver purchases a bus. The form has data fields for the date of the purchase, vehicle information, the seller, and an approval signature line. This document is used to determine if a driver is eligible to receive “frozen” mileage. During our review, we noted several instances where drivers were improperly granted “frozen” mileage.

Department personnel agreed that these drivers were ineligible for “frozen” mileage. They also agreed that it was improper for them to receive “frozen” mileage. A review of the reimbursements to these drivers revealed that they were paid on the basis of actual miles which were greater than the “frozen” mileage guarantee. Consequently, there was no fiscal impact.

The route sheets, T-10’s, and the supporting documents are the principal control instruments by which the Department manages its contractor-driven buses. To ensure proper management, this information must be accurate and any changes to this information should be monitored and reviewed thoroughly.

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The Lafayette Parish School System and management of the Transportation Department should adopt a comprehensive system of internal controls to ensure that routes are efficiently designed and contract drivers are compensated appropriately. The Board and management should adopt the following specific recommendations:

- Research and identify the route length minimally sufficient to cover the costs of safely operating contract buses and refuse to set guaranteed mileage rates above this level. This practice will not preclude assigning routes longer than this minimum and will give the Department much needed flexibility in adjusting routes as circumstances change.
- Discontinue the policy of guaranteeing mileage for contract drivers that are ineligible for “frozen” mileage. Efforts to make the routes more efficient will lead to fewer contract-driven miles and the Department must have the ability to reduce mileage where appropriate.
- Develop a set of written procedures detailing how route audits are to be performed. The procedures should specifically explain when route audits are required, the type of audit (efficiency, compliance, or safety) to be performed, who is to perform the audits, how the audits are to be conducted (physical monitoring, use of routing software, GPS monitoring, et cetera) and how the resulting audits are to be documented. A comprehensive system of audits is necessary to ensure the reliability of the route information and will serve as a deterrent against efforts to inflate or “pad” mileage.
- Undertake a comprehensive review of past contractor-driven routes. Based on our review, it appears that the mileage recorded on some of the contractor-driven routes may be excessive. All instances of possible excessive mileage should be investigated thoroughly. Appropriate disciplinary action should be taken if the facts indicate false route information was submitted to the Department.
- Require all contract drivers to be in possession of their buses prior to the beginning of the school year. This will eliminate the need for the Department to lease buses to these drivers. Since the Department will no longer be leasing buses to contract drivers, there will no longer be a necessity to subsidize these drivers through payment of the insurance costs.
- Develop written procedures detailing how the seniority system operates. These procedures should be based on the legal requirements outlined in R.S. 17:493.1. All route assignments should adhere to these procedures and be documented appropriately. Adherence to these procedures and documentation of the results will help eliminate claims of favoritism and the appearance of impropriety.
- Ensure that all route sheets and T-10's are reviewed thoroughly for completeness and accuracy prior to approval. These sheets are the primary documents in the Department's system of internal control. The data from these sheets provide the basis for reimbursements to contract drivers, audits to be conducted, and

performance information provided to the Department of Education and others. The accuracy of this data must be ensured.

- Develop written procedures for how changes to routes are to be approved and documented. At a minimum, such procedures should require a written submission from the driver of the reason for the change, the effect of the change on route mileage, and updated stop and student information.

The Lafayette Parish School System is a political subdivision of the State of Louisiana created under Revised Statute 17:51. The System is presently composed of nine members elected from nine districts serving four-year terms. The System operates 45 schools, which include over 30,000 students, 2,200 teachers, and over 1,300 professional and support personnel.

The Legislative Auditor received information that at the start of the 2004/2005 school year, the Transportation Department of the Lafayette Parish School System was having difficulty picking up all students in a timely manner. The procedures performed during this audit consisted of (1) interviewing employees of the Board; (2) examining selected records of the Board; (3) performing analytical tests; and (4) reviewing applicable Louisiana laws.

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Management's Response



LAFAYETTE PARISH SCHOOL SYSTEM

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Superintendent

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September 21, 2005

Mr. Steve J. Theriot, CPA
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Re: Lafayette Parish School System – Transportation Department Audit

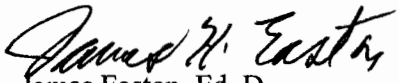
Dear Mr. Theriot:

I have reviewed the draft compliance audit report on the Lafayette Parish School System which was discussed with me and others on September 8, 2005, by Mr. Gary Duty of your office.

Please know that we agree with the findings and recommendations contained within the report. We shall implement your recommendations as they shall enable us to improve our efficiency and effectiveness while increasing our compliance with state laws.

I would like to thank you and your staff for your interest in our school system.

Sincerely,


James Easton, Ed. D.
Superintendent
Lafayette Parish School System